RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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May 22, 1996 **LETTER 1200**

THE PICTURE: Let's face it -- this bull market has derailed, broken, violated, and mocked almost every technical and fundamental market system known to man. Overvalued market -- forget it, doesn't matter. Over-bought market -- hasn't halted the advance. Toppy formations -- they're brushed aside. This bull is a brute, and in 22 years (since 1974, when the bull market started) nothing has blocked its upward progress, at least not for long.

The only serious interruptions to the bull market (since 1974) were the advance-decline slump of 1981-82, the crash of '87 and the mini-crash of '90. And the losses connected with the '87 and '90 collapses were made up in a matter of months. The fact is that the climbs to new highs following all three of those events simply fortified the public's conviction that "every decline presents a buying opportunity," and that common stocks present an almost guaranteed method of SAVING.

So much for the past, and so much for the amazing growth of confidence on Wall Street and Main Street. What about the situation in the stock market right now?

Here's the way I see it. The business news is encouraging for the stock market. Bonds may have bottomed (maybe), the economy appears to be expanding, retail sales (except for cars) have picked up, bank credit is expanding, and inflation (at least according to our government bean counters) is under control.

As far as the stock market is concerned, my **Primary Trend Index (PTI)** (see page 2 chart) continues to be the leader on the upside -- and there's no point in arguing with that. The action of the PTI is never to be taken lightly. As subscribers know, the PTI has probably been the single best indicator for this bull market. Persistent new highs in the PTI will almost always carry the general market with it. And they did it again last week.

The bears continue to present their arguments for expecting a major top. Here's the picture through the eyes of the bears:

(1) The Dow recorded its bull market high of **5689.74** on April 3. The Dow hasn't been higher since (not, at least, as this Letter is written, but see Late Notes on page 6). It is well to remember that the 30 D-J Industrial stocks, as a group, are the *most studied* and *widely-followed* 30 stocks on the planet. What they do, or what they don't do, is crucially important.

(2) The D-J Utility Average, which often acts as a bellwether for the entire market, recorded its high back on February 12 at **234.00.** It's 8.5% below that level now.

(3) The bond market peaked in January with yields (long bond) at **5.78%.** Yields are now near 7%.

(4) New stock highs peaked at **348** on Dec. 4, 1995.

(5) Volume (particularly on the NASDAQ), IPOs, secondaries, speculative intensity, and a widely accepted "this time it's different sentiment" has reached levels usually associated with major bull market tops.

(6) The "Percentage of Blue-Chip stocks that are Undervalued" has dropped to a record low of 2%. Of 350 blue-chips monitored by *IQ Trends* of La Jolla, only 7 are graded as Undervalued. Amazing.

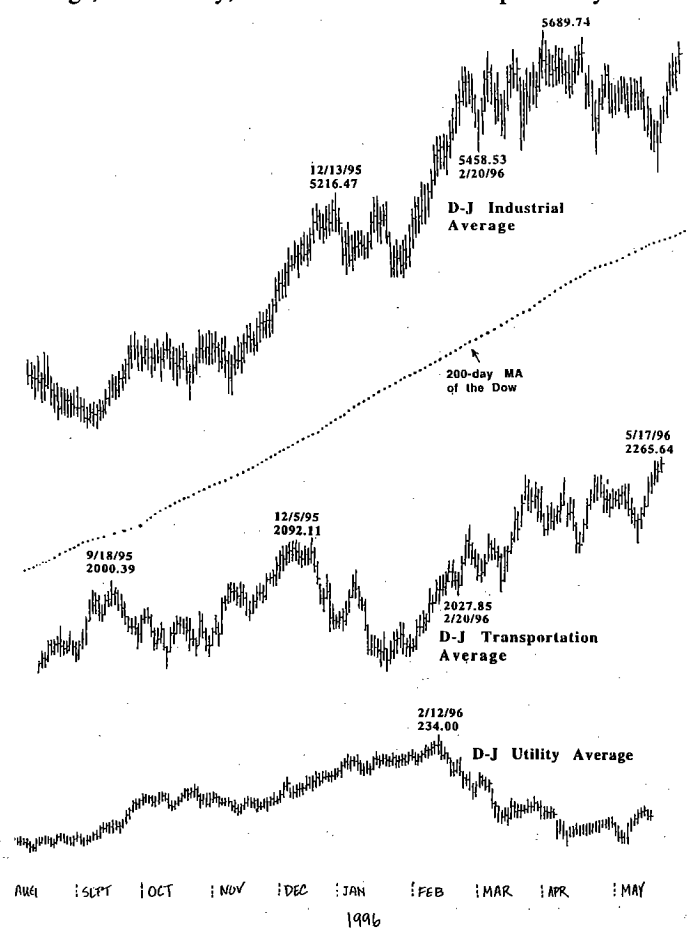
May 10 DJIA 5518.14; PTI 4531; A-D Ratio +0.77
May 17 DJIA 5687.50; PTI 4557; A-D Ratio +1.45
Dow Yield: 2.17%; Dow Price/Earnings: 18.2
Dow 200-day MA: 5144; Dow 30-day MA: 5552
Dow Times Book Value: 4.36; PTI 89-day MA: 4476
Percentage of Undervalued Blue-chips: 2%!
Gold 200-day MA: 392.73; Gold-PTI: 685

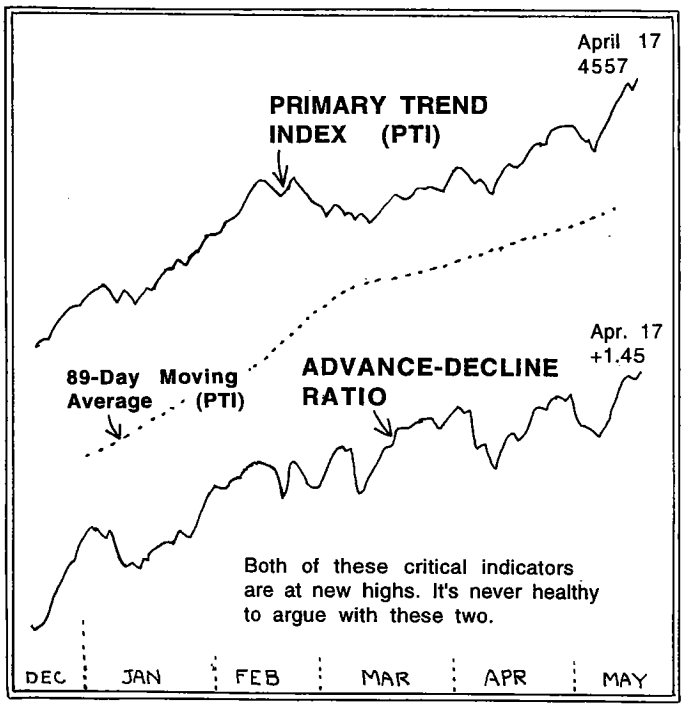
The bulls dismiss the bears' arguments. The bulls maintain that the "blue-chip" averages are now fairly priced, and that the action and new money is going into the "more interesting" secondary issues, many of which have not been fully exploited as far as price is concerned.

Furthermore, counter the bulls, it's absurd to argue with price action and strength. On May 13 the very important S&P 500 finally advanced to a record high accompanied by new bull market highs in the NASDAQ, the D-J 65 Composite, the Wilshire 5000, the Amex Index, and the Russell 2000 Index. Also at a new high was the very important NYSE Composite Index, which recorded its first record close since early April.

With this spectacular array of record highs, it would be difficult to describe the stock market as anything but powerful. You may not like this "over-priced" market, you may find a hundred faults with it, but it's a powerhouse, and you fight it at your own risk.

One of the most remarkable aspects of this market is that record earnings, historically, are almost never accompanied by record





highs in the P/E ratio. As *Hussman Econometrics* recently pointed out, "The price/earnings ratio on the S&P 500 is now 19.3, based on record earnings. Such a high multiple is usually reserved for severely depressed earnings. Historically, when the P/E ratio has been above 19 on the S&P 500, earnings have been an average of 22.4% off their highs. The only two times that the P/E exceeded 19 based on record earnings were January 1962 (followed by a 27% decline over the following six months) and December 1972 (followed by a 50% market decline over the following two years, even as earnings grew by another 70%).

But as I said before, this market has violated all the "old" rules and precedents. The optimism, the enthusiasm, the confidence on the part of the public has swept away any and all of the caution of the past. It's a "new world" on Wall Street, possibly one that we'll never see again.

Of course, the bears retort, this is *precisely the time to worry,* since bear markets always start when the skies are cloudless, when optimism is boundless, and when the public is convinced that the arrival of a bear market is well nigh impossible.

TOOLS: Question: Russell, I note that increasingly you are using data and material based on market action. Is there a reason for this?

Answer: Yes, I've turned more and more to "action-of-the-market" material because they've done the best job of following this bull market. At the same time, too many of the indicators that have been used in the past -- short interest ratio, wilgo, confidence index, put/call ratios, yields, sentiment, etc., have not been helpful and, in many cases, have failed completely.

My Primary Trend Index (PTI), which is based strictly on action of the market indices, has been particularly helpful. Note that in depicting the various averages, indices and commodities I have turned to the candlestick chart method of charting. In many instances I have augmented the candlestick charts with moving averages.

Question: Why do you like the candlestick charts?

Answer: Simple, they provide a better picture of the trends. As a rule, a series of three consecutive "up-candles" suggests strength while the opposite suggests weakness. Candlesticks just tell us *more* than the classic high, low and closing of bar charts.

Question: What about the moving averages?

Answer: The moving averages help to *define* a trend. They also provide "buy" and "sell" signals (these signals occur when the shorter moving average crosses above or below the longer moving average). Of course, the problem with moving average studies is that they can produce whip-saws, but that's the problem with most technical studies. And as every veteran trader knows, when you're trading on a system and you suffer a series of whip-saws -- that can be an expensive proposition.

The important point about a moving average is that it will show the price as compared with the price 10 days ago or 30 days ago or 200 days ago (you supply the time period). The classic time-span is the 200-day moving average, and I've used that span for decades. However, I prefer to use two moving averages, the spans almost always based on Fibonacci numbers such as 21, 34, 55, 89, 144, etc. The two combinations I like best are (1) a 21- and a 55-day moving average and (2) a 34- and 144-day moving average. Obviously, combination #1 will be more sensitive and provide quicker signals than #2, but #2 will provide more decisive, more important long-term signals.

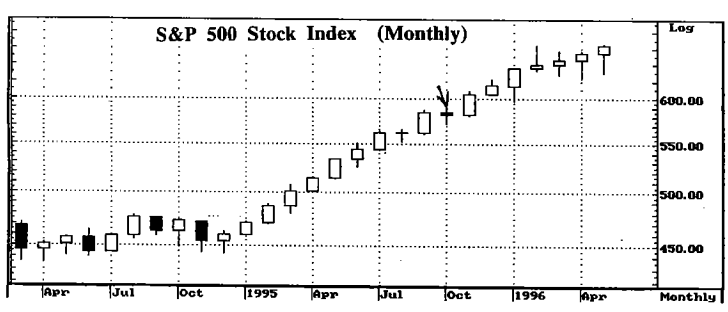
INVESTMENT POSITION: The bull remains in the box. His wobbly legs of a few weeks ago have strengthened, and he's being fed a ton of new food (money) each week. Yesterday I heard a market veteran on Bloomberg TV complain, "This market is being run by a bunch of 26-year old computers kids who don't give a damn about values, they just play the strength and allocate the dollars that pour in each week."

Maybe so, but at this point we don't care "why," we only care "how." And how this market is acting is as follows -- it's pushing up day after day, week after week, month after month. Frankly, I've never seen a market that has risen on 17 out of 18 months, and I don't think anyone else has either. This incredible performance strikes fear in the heart of veteran observers, but the public is convinced that it will continue.

Russell opinion: This is a bull market "third phase" of a lifetime. And neither I nor anyone else knows where it will top out or when. When it finally does top out, we should be in for an historic bear market. But why jump the gun? It's still a bull market.

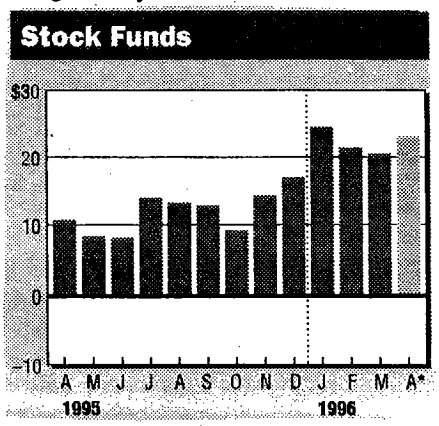
Preservation of capital still rules my investment stance. I'm super-cautious, and I'll admit it -- in 45 years of watching markets I've never seen anything like what's going on.

CHART STUDIES: This chart shows the **monthly** high, low and close for the S&P 500 Stock Index. Starting with the month of December 1994, 17 months have elapsed. During that extraordinary period we have witnessed only one down-month for the S&P (arrow). When the market climbs higher on 17 out of 18 months (the current month of May is the 18th), it is certainly possible that the market may have discounted the BEST that can be



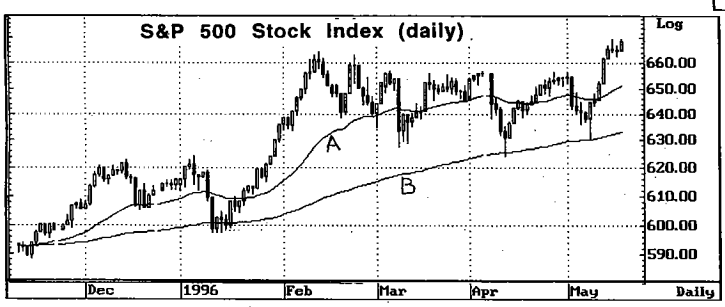
seen ahead. But then again, maybe not, we'll just have to wait to see. Let me put it this way -- with the S&P up 17 out of 18 months the market is s-t-r-e-t-c-h-e-d. An incredible performance.

The next chart shows the monthly total of cash that is coming into the equity stock funds. Describing it as "an awesome April," the *WSJ* noted that $23 billion came into stock mutual funds during April. This was second only to the record $29 billion that came into equity funds during January.

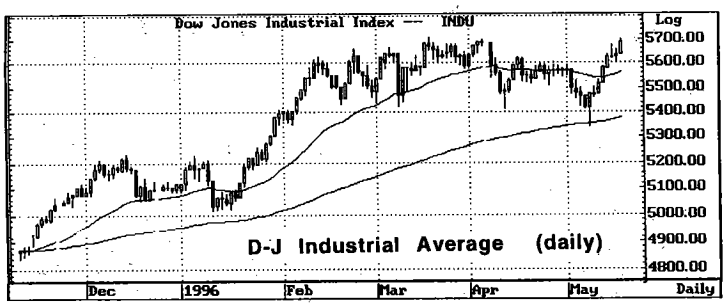


During the first four months of 1996 almost $100 billion in fresh cash has poured into equity mutual funds. Wall Street has never seen anything like it. Yet, the Dow has not hit a new high since April 12.

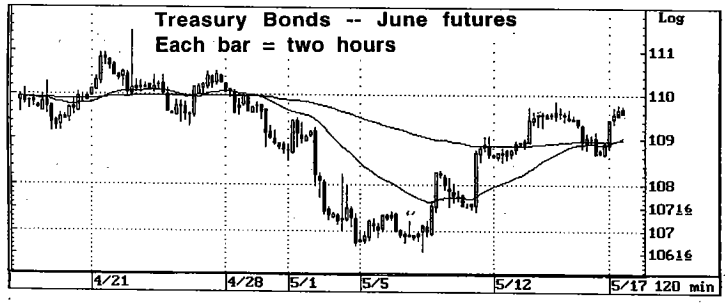
The next chart shows the *daily* S&P 500 Stock Index. I have included two moving averages, the shorter 34-day moving average (A on chart) and a much longer 144-day moving average (B on chart). Note how beautifully the 144-day MA has contained each decline. The 144-day MA is at 629 as this is written. Therefore, as long as the S&P holds above its 144-day MA in the 629 area I would consider the primary bull trend to be intact. Any decline which decisively penetrates the **629** area would suggest a critical or watershed change in the market's character.



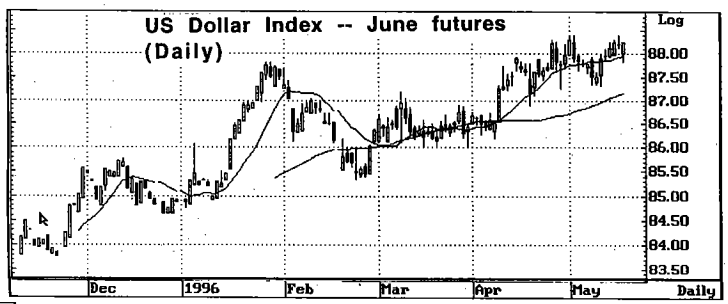
Here's a daily chart of the "reluctant" Dow. Veteran market practitioners take the Dow's action very seriously. The Dow isn't "the market," and it was never meant to be. The Dow consists of 30 blue-chip, globally-oriented giants. These 30 stocks comprise probably 25% of the value of the entire NYSE, and they are watched and studied the world over. For a confirmation of the continuance of the bull market, the Dow MUST advance to a new high above its April 3 bull market peak of **5689.74.**



Besides Dow action, this could be the key to the market, and I'm referring to the bonds. This is a very short-term chart of the T-Bonds (June futures), each bar = two hours. Following the April 22 high of 110-30, the Bonds declined to a May low of 106-18. The Bonds are now bouncing around the 109 level and appear undecided. When they decide, it will be IMPORTANT.



The Dollar Index is a trade-weighted geometric average based on 10 currencies. The Index has now bettered its January high and looks as though it wants to go higher, maybe considerably higher. US tourists love a strong dollar, big corporations have mixed feelings because they know that a strong dollar hits their exports. Basically, the dollar is a cheap currency, and when you go to Europe or Japan you see how little the dollar buys. With Europe now dealing with heavy unemployment and moving to reflate, the dollar has a chance to head higher, particularly against the European currencies.



NOTES & QUOTES: Friend? In the last Letter I presented the iconoclastical thesis that the market is NOT your friend, rather it's your enemy. I have always viewed the market as a composite of two living adversaries, a very smart and well-meaning bull, and a nasty, scheming, bad-tempered bear. The philanthropic bull has been in command for years, and he wants to take this market as high as he can. And if the whole nation finally climbs aboard, that's fine too -- and it's up, up and away.

What about the bear? The bear loves this massive public participation, but he loves it for a very different reason. The bear wants everyone and his brother and sister and uncle and grandfather in this bull market. He wants the whole nation in the market and loaded to their eyeballs with stocks. Then, when the public is literally choking on stocks and mutual funds, this dirty devil, this unconscionable bear, is going to pull the plug, and he's going to cause as much havoc, as much chaos and as many losses as possible.

"But if that's true, if the bear is plotting and waiting," you ask, "how can the bear be sure that he's going to cause all this pain? How does he know that he can kill the bull?"

Ah, the bear has overheard your question, and he mumbles under his breath, "How do I know? Listen, does night follow day? Does the storm follow the sunshine? Does the tide come in and then go out? Does death follow life? How do I know? Stupid question -- but hey, maybe you're right, maybe this bull market will go on forever. Yeah, that's it, this is the tree that will grow to the sky. So come on in, I love it."

There, see, I told you so! This bear is one unconscionable, scheming SOB.

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Low, Low Percentage: Last week the "Percentage of Blue-Chip stocks that are Undervalued" (statistics by *IQ Trends* of La Jolla) dropped to 2%. This was the lowest percentage ever recorded in this series, going back to the 1960s. It means that of 350 blue-chip stocks monitored by *IQ Trends*, only seven were classified as "undervalued." I doubt if we'll ever see this low of a percentage again, at least not in our lifetime. In the past any percentage below 15% was dangerous and indicative of a market top, anything below 10% was extremely dangerous.

Of the 30 D-J Industrial stocks, only one, Philip Morris, yields more than 4%, only four, Chevron, Exxon, JP Morgan and Texaco, yield more than 3%, and all the rest yield above 1% to above 2%, except for Woolworth and Beth. Steel which have omitted their dividends.

* *

Inflation is pronounced dead – but it will rise again

Excess money creation in Asia will feed into Europe and the US through rising commodity prices, says **David Roche**

David Roche, is president productivity, ending cost-push Should the transfer be Inflation brings with it ris-

This headline is from the May 4 *Financial Times* of London. The gist of the article is as follows: (1) When the consensus agrees on anything, you can be sure that the opposite is about to occur. The consensus is that inflation is dead. Don't believe it. (2) Commodity prices may be the "transmission mechanism" but excess money creation is the fuel in the inflationary motor. (3) "Broad money growth in many Asian economies has been in the high 20% range for much of last year." (4) "Everywhere central banks are relaxing monetary policy . . . This easy money will feed through into faster world growth. That spells competition for natural resources, price rises and a greater demand for investment capital relative to savings." (5) Short rates will have to rise eventually, but bond yields will not wait for that to happen. They are rising already. (6) "Rising yields make equities look expensive and only resource stocks will do well. Financials will be the losers." (7) "Cash will become king as equity and bond markets correct the world over."

Russell comment: Bond markets in the US and around the world appear to have topped out earlier and are now in a upward corrective phase. But new highs in bonds? Don't bet on it.

* *

Germany: With unemployment running high in Deutscheland, the usually tough Bundesbank last month cut the discount rate to a record low 2.5%. The cut was greeted by the predictable chorus complaining that Germany's bastion of anti-inflationary credibility had gone soft. Others put forth the ominous prediction that the Bundesbank has been politicized, and that the bank's easing was calculated to help the Kohl government to clear the way for the European Monetary Union.

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Wills: Many people work their entire lives but fail to leave a will. Why is this? Probably because writing a will reminds them of a painful fact -- that some day they will die. A new book, *"The Rich Die Richer and You Can Too"* by William Zabel (Wiley & Sons, 300 pages, $17.95), tells you why you should leave a will and how to do it. Some remarkable facts: Actor James Dean died at age 29 in an auto crash. He had no will and no assets. But his estate generates up to $3 million a year. The money went to Dean's father, who had abandoned Dean when he was young -- his father was probably the last person in the world that Dean wanted to benefit from his death. Further amazing facts: Presidents Andrew Johnson, U. S. Grant, James Garfield, and Abraham Lincoln all died without wills. Jackie Kennedy Onassis set up a charitable lead annuity trust (CLAT), which enabled most of her estate to be passed on tax-free. Zabel relates many interesting stories, explains annuity trusts and insurance. A book well worth reading whether you have big bucks or not.

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The Liberal Press: A survey of 139 Washington-based bureau chiefs and congressional correspondents found that 61% described themselves as moderate or liberal and only 9% as moderate or conservative. As for party affiliation, 50% said they were Democrats while only 4% said they were Republicans; 37% said they were independents. Oops, 89% said they voted for Clinton in '92 while only 7% voted for Bush. Mull this over as you read your daily newspaper.

* *

Sentiment: A new ad by John Hancock insurance runs as follows: "In 1929 George Myers was ruined because he had his money on Wall Street. 67 years later, the same could happen to his granddaughter because she doesn't." **Russell comment:** This is the kind of sentiment that has captured the minds of today's public. This ad would have been unthinkable during the '50s or '60s or '70s. The current thinking is that if you're not in the stock market, it's actually dangerous to your financial health . . . An article in the March *NY Times* noted, "After 15 years of disinflation, consumers are finally coming to feel about equities the way they did about their homes in the 1980s. Even real estate agents cited in the article noted that it made no sense to push your home dollar since this money could be invested more advantageously in common stocks."

* *

POPULATIONS: I may be a nut, but the growth of the US and the world populations worries me. I know this -- when you pack too many rats in a cage they will kill each other. When I was a kid the population of the US was around 125 million. The US population is now around 260 million. When I was 20 years of age the world population was around 2 billion. It's now approaching 6 billion and it's expected to reach 10 billion in another 30 years. They say the limit that the earth can hold is around 12 billion people. I don't know about that and neither does anyone else. I do know that currently species and ecosystems are being annihilated worldwide at an appalling rate. Personally, I am a cactus fancier; I've collected cacti and studied them for 55 years. And I know that each year more and more cacti species are either endangered or have disappeared entirely.

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TAXES: It looks as though come what may, Republican Congressional powerhouses Army and Archer are going to call for a total change in the current abominable tax system. To me, this is one of the major reasons for getting rid of Bill Clinton, meaning that Clinton would probably veto any fundamental change in the tax system. Remember, Clinton so far has been THE major opponent of any real change. Consider this -- since 1992 corporate taxes in the US have risen a shocking 55%. And during the same period personal taxes have risen 25%. Can you imagine what a boon to the economy it would be if the income tax was thrown out and a consumption or flat tax was instituted? Incidentally, an increase in corporate taxes acts as an increase in consumer costs since corporations always try to pass cost increases on to the consumer. Thus, higher taxes are always ultimately *inflationary,* and don't let Bill Clinton or anyone else tell you differently.

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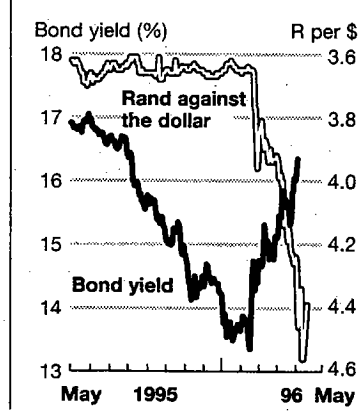
S. African Rand: For a number of reasons (political wrangling over the new constitution, industrial unrest, the resignation of the finance minister) the S. African rand has plunged. The decline has sent S. African bonds into the tank with their yields rising to the 16-17% level. This chart shows the action over the last year. It also shows what can happen when a country's currency takes a dive.



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SEAT: Last week, on May 7 a seat (i.e., membership) on the NYSE sold for a record $1.45 million. The current bid is $1.25 million and the asked is $1.75 million. I remember back in the '40s the father of my old buddy, Wayne Marcus, bought a NYSE seat for $70,000. I thought that was a wild price for a seat, but volume

on the Big Board was then running around 2-3 million shares a day. Nevertheless, with the advent of Internet trading and a bull market that appears toppy, I happen to think that $1.45 million is a lot for an Exchange seat. I'll bet I'll be more right today than I was in 1949.

* *

Currencies: Several years of heavy capital inflows have brought assorted and once "sleepy" exotic Asian currencies to the fore. The most stable of these is the Hong Kong dollar, which has been pegged to the US dollar at a ratio of 7.80 since 1984. The initial catalyst has been the strength of the Japanese yen. But interest is now rising among institutional investors in such currencies as the Thai baht, the Malaysian ringit and the Singapore dollar. Says Eddie Tan, country treasurer at Citibank in Singapore, "The growth of regional currencies has been phenomenal -- in the last two years trading volumes have risen by about 40 to 50% a year. G-7 currencies, which have always been actively traded here, are now a mature market -- margins have collapsed because customers are demanding tight pricing, and as a result, profitability has become negligible." Russell translation: The less-liquid Asian currencies enjoy a large bid-and-asked spread, which, of course, allows the banks to rake in higher profits in transactions.

Interestingly, Singapore is the leading trading hub for the "exotics," and it's now the world's fourth largest trading center. The Chinese renminbi, once it is freely convertible (which should occur within the next few years), will undoubtedly grow to be one of the world leading currencies.

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Veteran market analyst, Steve Leuthold (Minneapolis-based money manager) has some definitions for this bull mighty bull market:

▶ **Bear market.** When stocks decline for a week.
▶ **Major correction.** When stocks decline for a day.
▶ **Old-timer.** A person who knows someone who lost money in the stock market.
▶ **Cynic.** Anyone reminding you stocks can go down.
▶ **Conservative.** Anyone without a margin account.
▶ **Diversified portfolio.** Any portfolio with less than 50% of its assets in technology stocks.
▶ **Risk.** How much you can lose being out of the market.
▶ **Inflation.** Historical phenomenon that used to adversely affect stocks.
▶ **Dividend yield.** Outdated concept once used in valuing stocks.

* *

More on Chelation: After about 65 chelation treatments, I am happy to report that my occasional chest pains (angina) have just about disappeared. Through my personal experience with chelation and through hearing dozens of stories and via dozens of letters from subscribers, I am convinced that there is great benefit for heart patients in undergoing chelation therapy.

I am also amazed at the resistance of orthodox medicine to chelation. My only conclusion is this: many (most) hospitals survive on hugely expensive medical-surgical bills, with a large part of those bills having to do with heart surgery. My own insurance company paid $65,000 for by-pass surgery and another $35,000 when I had a "stent" put in one graft that had closed up. The idea of a relatively cheap and effective therapy which would "by-pass by-pass" is a threat to these hospitals and to a large number of physicians. I'm not saying that these hospitals and physicians are dishonest, but it's certainly easy to see why they would be, shall we say, "disinterested" in a therapy which, if it worked, would cost them billions of dollars in revenue. At any rate, I would suggest that subscribers who have even a hint of heart trouble to investigate chelation.

Incidentally, Joe Granville, who is my age, just had a heart attack. Joe called me to inquire about chelation. I told him to get started. Do it, Joe!

* *

Survive: Incidents of gratuitous violence hit the newspapers every day. Last week a brilliant La Jolla professor and his 13-year old daughter were brutally gunned down and killed only a mile from my house. Reports of multiple murders and senseless shootings appear in the papers every day. I have received many letters thanking me for recommending "Strong on Defense," written by a veteran San Diego cop (an expert on defense). I consider this book to be an absolute MUST. The odds are that sometime in your lifetime you will be confronted by crime and I mean violence. Knowing what to do, knowing how to act in ADVANCE may well save your life or the life of members of your family. Believe me, most of your notions of what to do when confronted by a criminal are WRONG, DEAD WRONG. As Strong puts it, as far as the veteran criminal is concerned, you are just a four-letter word, and that word is N-E-X-T. This book will open your eyes -- "Strong on Defense" by Sanford Strong (Pocket Books, $22, ISBN # 0-671-52293-0).

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Russia: The world is watching and waiting for the coming Russian election. The most recent polls put Gennadi Zyuganov, the Communist leader, far ahead of President Boris Yeltsin. The problem, Russian "reformers" have failed miserably, and the Russian people are sick of it, and terrified by the crime wave that has enveloped the nation. The following from the editorial page of the May 13 *WSJ:* "The most serious failure of the democrats . . . is the government's inability to stop the growth of organized crime. Racketeering grew up with capitalism in Russia and is now its inseparable twin. When the private businesses were legalized under Gorbachev, it was against Soviet law to have private guards. Gangs of criminals immediately stepped into the breach to offer protection for a price. In the first stage, Russian criminals devoted themselves to shaking down street vendors, but with the accumulation of unheard of sums of money, which, of course, had to be laundered, they became partners in larger enterprises and began to take over the banks. Russians now live with a new kind of fear. It is virtually impossible to run a business in Russia without either paying protection money to, or cooperating with, organized crime. Criminals have access to bank data and will demand a share of the proceeds from anyone receiving a bank transfer large enough to attract their attention. Faced with this rampant criminality, the government has done virtually nothing. Contract killings are reported each morning in the newspaper, and it is taken for granted by everyone that there will be no arrests. The Duma finally passed a law to punish the organizers of racketeering, but President Yeltsin still has not signed the measure."

* *

Lettuce and tomato comes to **McDonald's.** The company has decided that it needs an "adult" burger, so it has added a quarter-pounder called the Arch Deluxe burger. MCD expects to spend $100 million advertising the new burger. MCD's operating income in the US fell 4% for the first quarter of '96. MCD's international business now accounts for nearly 60% of its earnings. Russell translation: The US market for burgers is saturated, and increasingly people want to sit down and eat politely in peace, rather than gulp down burgers in a semi-frantic atmosphere.

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The Face in the Ice: With the tragic death of eight climbers on Mt. Everest last week, I have an urge to repeat the following story, which I understand is true. "A young man is climbing a steep mountain when suddenly he's buried by an avalanche. The young climber is killed instantly and frozen into the ice and snow.

"Forty years later another, older, mountain climber is working his way up a mountain when he stops to stare at something in the ice. What he sees is a body that is almost perfectly preserved. Upon closer examination the climber is amazed to see that the face on the frozen corpse is a mirror-image of his own. In a flash of recognition, the climber realizes that the body preserved in ice is his own long-lost father. He's thunder-struck when he realizes that he's staring at his father, frozen in ice in his twenty-sixth year, his father who is twenty years younger than he is."

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The rise of electronic communications, FAX, computers, copiers, satellite TV, etc., has and is changing the world. For one thing, it is showing people all over the world how other people live. I fully believe that electronic communications caused the downfall of the Communists in the Soviet Union. When the Soviet citizens saw how the rest of the world was living compared with their own lives, the Communists were ousted. The same thing may now be happening in Myanmar (formerly Burma).

What's next? I think the next revolution will be the rise of women, particularly in Africa and Asia, to a position much closer to that enjoyed by men. Already, Islamic women are forming groups to protest their inferior situation. In Japan women are refusing to marry and kow-tow to macho Japanese men. In Africa, women are beginning to question barbaric sexual practices.

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Hong Kong: Visitors to Hong Kong are finding out that there are no rooms available in the major hotels. The "No Vacancy" situation is a result of thousands of visitors flocking to Hong Kong to see the sights before the Union Jack is hauled down and China takes over in '97. Last year 10 million tourists visited Hong Kong and this year there will be more. Hong Kong now has only 31,400 rooms, less than last year.

Speaking of travels, I had breakfast last weekend with a friend just back from Paris. "How were the prices?" I asked. "Listen to this," said my friend, "We stayed in a good hotel, and I need two cups of coffee to wake up in the morning. The price was $3.50 a cup, with no refills or $7.00 for my two cups of Java." "Sound great, I'll stay in La Jolla," was my response.

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My friend, Don Morris, notes that **English** is becoming the accepted world's language. A prime reason -- the Internet. "Cyberspace," writes Morris, "was born in America, and while it has by now encircled the globe, it operates almost entirely in English . . . The mere acquisition of a PC abroad administers a strong shove to learn English; the vast bulk of software is written for English-speakers, and local pickings are slim . . . Amongst the more popular programs abroad are computer courses in *learning* English . . . There is no room on the Internet for a Tower of Babel; it tolerates other languages but reduces them to virtual impotence."

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FED UP? Sen. Harry Reid (D-NV) continues to push for an audit of the Fed. The Fed is financed by $20 billion or so in profits it earns each year managing the government's investments. It turns the rest of the money over to the Treasury Dept. But how much does the Fed spend and on what? Who knows? Greenspan states that the Fed's diligence in keeping costs down "equals that of the most efficient public and private sector institutions." Yeah, right, but how's this for savings -- a new $168 million building in Dallas with an exercise room, private courtyard and subsidized cafeteria. The Fed reportedly spent $13 million on office furniture, equal to $13,000 for each of its 1,000 employees. The Fed also spent $1.5 million for floor and wall coverings, including Italian marble. The main purpose of the building -- housing a check and data processing facility.

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PRECIOUS METALS AND INFLATION: From every corner we hear that "there's little or no danger of inflation." Yet, central banks across the face of the globe are boosting their money supplies, and even the conservative Bundesbank has taken rates to their lowest level in recent history. In the meantime, the nation is swimming in liquidity -- and the grains have exploded, lumber has surged as has oil -- the base metals, zinc, lead, tin, copper have all moved up, housing prices are firming. A rise in wages could be next. Could inflation be just over the horizon? I think it could be.

The irony in the situation is that the precious metals have laid dormant. With all the deadness in the metals, however, the gold stocks have been active, with many having hit 52-week or even all-time highs this year.

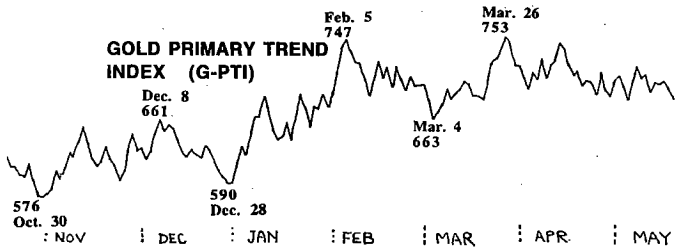
Bond buyers (who are extremely sensitive to inflation) have knocked the bonds down from the mid-5% yield range to the 7% range. Utilities (also sensitive to rates) have fallen sharply. Are the bond and utility traders totally wrong? I doubt it.

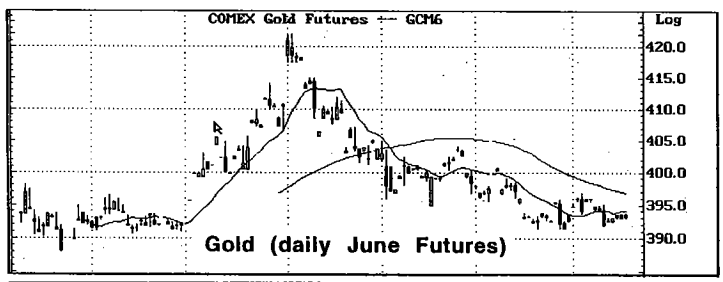
It is said that two phenomena have held back the price of gold: (1) central bank selling of gold, and (2) "forward selling" of gold by a number of gold mining companies. I'm somewhat skeptical of this argument. Here's what I think -- when the precious metals are READY to move, nothing's going to stop them -- nothing.

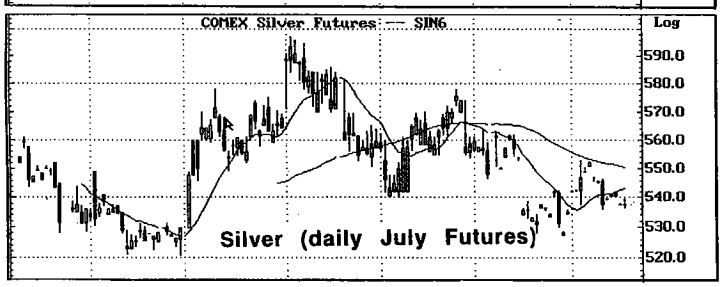
My **Gold-PTI** chart is interesting. On the face of it, nothing dramatic has happened. But note -- since last October the G-PTI has traced a series of higher lows and higher highs. The next obvious upside target for the G-PTI would be the March 26 high of 753. If 753 is bettered, I believe gold, the metal, would begin heading north. Of course, what gold-philes don't want is a break by the G-PTI below the March 4 low of 663.

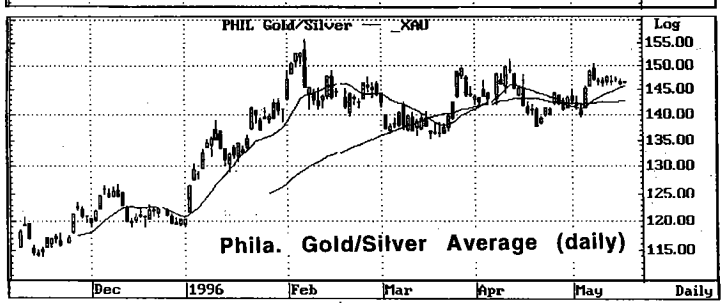
I guess the charts tell the story as well as anything. The first chart shows daily gold (June futures), which is holding below its 55-day moving average and sitting right on its 13-day MA. Nothing much happening here. The second chart shows July silver, and here too the picture is deadness.

XAU, the Phila. Gold/Silver Average, is the most promising item in the precious metals picture. The 150 level is clearly the level of resistance for XAU. Ever since mid-February XAU has been making stabs at the 150 level, so far, no success. But hope springs eternal in the breast of every precious metals fan. Any encouragement from the actual metals, and I think we would see XAU push above the 150 mark.









LATE NOTES: As this is written (early Monday morning) the Dow has still not confirmed (the Dow closed Friday within 2 points of confirming). The fact that the S&P has risen on 17 out of 18 months is causing market veterans to be cautious. But this market is not being run by market veterans, it's running on massive liquidity and a generation that has never seen a bear market or hard times . . . My PTI closed last week at a record high.

(Next mailing: June 5, 1996.)